

May 28, 2004

VIA HAND DELIVERY & ELECTRONIC MAIL

Luly E. Massaro, Commission Clerk
Rhode Island Public Utilities Commission
89 Jefferson Boulevard
Warwick, RI 02888

Re: Docket 3463 - May True-up Filing

Dear Ms. Massaro:

In accordance with Section IV.C. of the Settlement of the Parties in the above-captioned docket, filed on September 12, 2003 (“Settlement” or “Approved Settlement”), and approved by the Commission at an Open Meeting on December 18, 2003, The Narragansett Electric Company (“Narragansett Electric” or “Company”) hereby files a modified budget and goals for its 2004 demand side management (DSM) programs. The modifications result from an update of the funding expected to be available to support program efforts in 2004 that takes into account the actual DSM fund balance at year-end 2003, an updated forecast of expected kWh sales in 2004, and additional information about the actual costs and savings of projects that have been completed in the Company’s service territory. Pursuant to Section IV.C. of the Settlement, the Division of Public Utilities and Carriers (“Division”) has authority to approve the modified budget and has, in fact, approved the modifications described herein.

Additionally, pursuant to the November 7, 2003 filing in this docket, the Company, with agreement from the Collaborative, has included a modification to C&I Metric 3: Comprehensiveness in Small Business Installations. This modification is necessary because evaluation findings indicate that HVAC tune-ups are not cost-effective.

2004 Funding

The current projection of available funding for DSM in 2004 takes into account the actual year-end DSM fund balance as reported in the Company’s “2003 DSM Year-End Report” Table 5 filed on May 7, 2004 and an updated sales forecast, all compared to projections in the Settlement. The comparison shows that the funding projections in the Settlement were \$411,600 too low, as shown in Updated Attachment 6.

The Collaborative Parties, in response to a high level of demand for program services in the Large C&I Programs and in recognition of underspending in the Large C&I sector during 2003 while slightly overspending in the residential sector, intend to adjust for the disparity by increasing the rebate budgets for the Energy Initiative and Design 2000*plus* Programs. Other program budgets will change insignificantly as certain administrative expenses get reallocated to programs; however, funding that affects the level of services provided to customers and expected program savings in all programs except for the Large C&I programs, is unchanged. All proposed budget changes are provided in Updated Attachment 5. Page 1 of Updated Attachment 5 provides the program budgets that take into account the additional \$411,600 in available funding. Page 2 of Updated Attachment 5 provides a comparison of the updated budgets for 2004 to the budgets in the Settlement.

Incentive and Goals

Section IV.C. of the Settlement states “The Company will be permitted to adjust the projected spending budgets and savings goals in the shareholder incentive calculation in accordance with the adjustments made in the May True-up filing.”

The addition of funds as discussed above results in an increase in the spending budget. As a result, the Company’s target shareholder incentive increases from \$678,526 as shown in Attachment 8 page 2 in the Settlement to \$695,577 as shown in Updated Attachment 5 Page 2 of 2 and Updated Attachment 8.

The added funds, along with updated information about the expected cost of savings created amended savings targets by sector. These updated targets are provided in Updated Attachment 8, page 2 of 2 and Updated Attachment 10, page 3 of 3.

Revised Cost-Effectiveness Analysis

Updated Attachment 10 provides an updated analysis of the expected benefits and costs associated with proposed efforts. This attachment also provides a comparison of the updated annual energy savings goals by program. Overall, the annual energy savings goal for 2004 has increased by 3,361 MWh compared to the energy savings goal included in the Settlement.

Division Approval

Section IV.C. of the Settlement states, “If the difference between the results of the true-up and the filed budget is 20% or less of the total approved budget, the Division shall have the authority to approve the reallocation.” Here the addition of \$411,600 is

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1.9% of the total approved budget and, therefore, is below the 20% threshold. Thus, only Division approval is required. The Division has indicated that it fully supports the budget reallocation outlined above.

Revision to C&I Metric 3: Comprehensiveness in Small Business Installations

On November 7, 2003, the Company filed with the Commission Revised Attachment 7 to the Settlement. Revised Attachment 7 describes the five performance metrics that, in addition to energy savings by sector, are a part of the Company's DSM performance incentive for 2004. C&I Metric 3: Comprehensiveness in Small Business Installations, includes the following language:

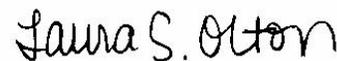
“The recommended performance target for this metric is predicated on an assumption that the current evaluation effort underway to assess savings from HVAC tune-ups will demonstrate that this measure is cost-effective. If evaluation findings indicate that this measure is not cost-effective, the Company proposes to work with the Collaborative to modify the target for this metric and will include the modified target in its True-Up Filing in May 2004.”

The Company's evaluation findings indicated that HVAC tune-ups did not produce savings as expected and as a result are not cost-effective. Therefore, as described above, the Company has worked with the Collaborative to modify the target for this metric. The modified metric is included in Updated Attachment 7 to this filing. Modified C&I Metric 3 establishes a performance target for Small Business comprehensiveness that excludes HVAC tune-ups. The Division fully supports this revision.

Updated Attachment 7 also includes language noting the eligibility of both private and public schools in the High Performance Schools initiative while focusing C&I Metric 2 exclusively on public schools as approved by the Commission.

Thank you very much for your time and attention to this letter. If you have any questions regarding this filing, please call me at 401-784-7667.

Very truly yours,



Laura S. Olton

Attachments

cc: Docket 3463 Service List

NARRAGANSETT ELECTRIC COMPANY
2004 Proposed True-Up Budget

	PAYROLL (\$000)	EXPENSE (\$000)	ADVERTISING (\$000)	TOTAL (\$000)
RESIDENTIAL PROGRAMS				
IN-HOME SERVICES				
EnergyWise	\$28.5	\$1,960.3	\$5.0	\$1,993.8
Appliance Management Program (Low Income)	\$21.4	\$923.8	\$5.0	\$950.3
Home Energy Management	\$4.1	\$148.4	\$0.0	\$152.5
ENERGY EFFICIENT PRODUCTS				
ENERGY STAR Products	\$16.0	\$281.1	\$145.0	\$442.1
ENERGY STAR Heating System	\$6.8	\$190.9	\$2.5	\$200.2
ENERGY STAR HVAC	\$12.9	\$122.2	\$33.5	\$168.6
ENERGY STAR Lighting	\$18.4	\$918.5	\$219.0	\$1,155.9
INFORMATION & EDUCATION				
Energy Efficiency Educational Programs	\$6.8	\$99.9	\$0.0	\$106.7
NEW CONSTRUCTION				
ENERGY STAR New Construction	\$20.8	\$644.3	\$25.0	\$690.1
Subtotal Residential	\$135.7	\$5,289.5	\$435.0	\$5,860.2
C&I PROGRAMS				
LARGE C&I PROGRAMS (1)				
Design 2000plus	\$456.2	\$4,823.5	\$16.1	\$5,295.8
Energy Initiative	\$454.4	\$6,981.0	\$9.5	\$7,444.9
SMALL C&I PROGRAMS				
Small Business	\$28.5	\$2,774.7	\$50.0	\$2,853.2
Subtotal C&I	\$939.1	\$14,579.2	\$75.6	\$15,593.9
Total Residential and C&I Programs	\$1,074.8	\$19,868.7	\$510.6	\$21,454.1
OTHER DSM EXPENSE ITEMS				
Company Incentive		\$695.6		\$695.6
Distribution Load Response Program	\$0.0	\$25.6	\$0.0	\$25.6
Program Design, Evaluation & Planning	\$130.0	\$246.0	\$0.0	\$376.0
Subtotal Other Items	\$130.0	\$967.1	\$0.0	\$1,097.1
TOTAL DSM BUDGET	\$1,204.8	\$20,835.8	\$510.6	\$22,551.2

1) Includes commitments for Design 2000plus and Energy Initiative of \$1,962,000 and \$3,339,500, respectively.

NARRAGANSETT ELECTRIC COMPANY
2004 Proposed True-Up Budget Vs. Settlement Budget

	Proposed True-Up Budget (\$000)	Settlement Budget \$0	Difference (\$000)(2)
RESIDENTIAL PROGRAMS			
IN-HOME SERVICES			
EnergyWise	\$1,993.8	\$1,994.8	(\$0.9)
Appliance Management Program (Low Income)	\$950.3	\$950.9	(\$0.6)
Home Energy Management	\$152.5	\$152.5	(\$0.1)
ENERGY EFFICIENT PRODUCTS			
ENERGY STAR Products	\$442.1	\$442.4	(\$0.3)
ENERGY STAR Heating System	\$200.2	\$200.4	(\$0.1)
ENERGY STAR HVAC	\$168.6	\$168.6	\$0.0
ENERGY STAR Lighting	\$1,155.9	\$1,156.5	(\$0.5)
INFORMATION & EDUCATION			
Energy Efficiency Educational Programs	\$106.7	\$106.8	(\$0.1)
NEW CONSTRUCTION			
ENERGY STAR New Construction	\$690.1	\$690.6	(\$0.5)
Subtotal Residential	\$5,860.2	\$5,863.4	(\$3.2)
C&I PROGRAMS			
LARGE C&I PROGRAMS (1)			
Design 2000 <i>plus</i>	\$5,295.8	\$5,163.8	\$132.1
Energy Initiative	\$7,444.9	\$7,178.3	\$266.6
SMALL C&I PROGRAMS			
Small Business	\$2,853.2	\$2,854.0	(\$0.9)
Subtotal C&I	\$15,593.9	\$15,196.1	\$397.8
Total Residential and C&I Programs	\$21,454.1	\$21,059.5	\$394.6
OTHER DSM EXPENSE ITEMS			
Company Incentive	\$695.6	\$678.5	\$17.1
Distribution Load Response Program	\$25.6	\$25.6	\$0.0
Program Design, Evaluation & Planning	\$376.0	\$376.0	\$0.0
Subtotal Other Items	\$1,097.1	\$1,080.1	\$17.0
TOTAL DSM BUDGET	\$22,551.2	\$22,139.6	\$411.6

1) Includes commitments for Design 2000*plus* and Energy Initiative of \$1,962,000 and \$3,339,500, respectively.

2) The rebate budgets for Energy Initiative and Design 2000*plus* have been increased by approximately \$399,100. No change has been made in the dollars that directly affect the magnitude of savings (services to customers) in the other programs. The remaining budget changes noted above reflect a reallocation of administrative and general expenses to all programs.

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DSM Funding Sources in 2004 by Sector

	<u>Per Settlement</u>	<u>Update</u>	<u>Difference</u>
Projected kWh Sales:			
Residential	2,864,505,428	2,912,087,486	
Small Commercial & Industrial	1,351,390,225	1,349,453,826	
Large Commercial & Industrial ¹	<u>3,474,107,135</u>	<u>3,511,779,986</u>	
Total	7,690,002,788	7,773,321,298	
DSM Revenue per kWh	\$0.002	\$0.002	
Projected DSM Revenues (\$000)			
Residential	\$5,700.0	\$5,800.0	
Small Commercial & Industrial	\$2,700.0	\$2,700.0	
Large Commercial & Industrial	<u>\$6,900.0</u>	<u>\$7,000.0</u>	
Total	\$15,300.0	\$15,500.0	\$200.0
Other Sources of DSM Revenues (\$000):			
Projected DSM Fund Balance Interest in 2004			
Residential	\$218.5		
Small Commercial & Industrial	\$103.1		
Large Commercial & Industrial	<u>\$265.0</u>		
Total	\$586.6	\$325.0	(\$261.6)
Projected Co-Payments by Customers in 2004:			
Residential	\$0.0	\$0.0	
Small Commercial & Industrial	\$528.2	\$540.6	
Large Commercial & Industrial	<u>\$74.8</u>	<u>\$70.0</u>	
Total	\$603.0	\$610.6	\$7.6
Projected DSM Commitments in 2003:			
Residential	\$0.0	\$0.0	
Small Commercial & Industrial	\$0.0	\$0.0	
Large Commercial & Industrial	<u>\$5,650.0</u>	<u>\$5,217.2</u>	
Total	\$5,650.0	\$5,217.2	(\$432.8)
Projected 2003 Fund Balance:			
Residential	\$0.0		
Small Commercial & Industrial	\$0.0		
Large Commercial & Industrial	\$0.0		
Total	\$0.0	\$898.4	\$898.4
Subtotal - Other Sources of DSM Revenues:			
Residential	\$218.5		
Small Commercial & Industrial	\$631.3		
Large Commercial & Industrial	<u>\$5,989.8</u>		
Total	\$6,839.6	\$7,051.2	\$211.6
Projected Total Funding Available in 2004:			
Residential	\$5,918.5		
Small Commercial & Industrial	\$3,331.3		
Large Commercial & Industrial	\$12,889.8		
Total	\$22,139.6	\$22,551.2	\$411.6

Note:

¹ Includes projected kWh by large C&I customers as well as projected streetlighting sales.

2004 Performance Metrics¹

Introduction

Starting in 2003, performance metrics were established for five initiatives offered in Rhode Island. Four of these metrics were for “market transformation” initiatives and one (Comprehensiveness in Small Business Services) was for a significant improvement in program offerings. In all cases, the metrics were designed to be straightforward measures of progress for initiatives believed worthy of a special targeted focus.

The major structure and delivery of each initiative is not changing for 2004 from the pilot metrics tracked in 2003. The Company proposes the following performance targets for each proposed 2004 metric. These proposed targets reflect current market conditions and are expected to require the Company to “stretch” in order to achieve desired results.

Residential Metric 1: ENERGY STAR Clothes Washers

The metric supports the increased penetration of ENERGY STAR Clothes Washers in Rhode Island.

The Company will achieve an ENERGY STAR qualified Clothes Washer market share for 2004 in Rhode Island that is 7 percentage points above the national average.

Discussion: The chart below provides market share statistics for ENERGY STAR clothes washers for RI and nationally in the period 2001 through the second quarter of 2003.

¹ Attachment 7 of the Settlement Agreement of September 12, 2003, did not contain specific numeric targets for the performance metrics. Per the Settlement Agreement, Revised Attachment 7 was filed November 7, 2003, with numeric targets. That filing left open the possibility of altering the target for C&I performance metric 3, Small Business Services Comprehensiveness, pending the results of the evaluation of HVAC Tune-Up cost effectiveness. That measure proved to be not cost-effective. This Update contains the updated targets for that performance metric approved by the Collaborative on March 15, 2004. Discussion sections are included to provide support to the revised metric proposals.

ENERGY STAR CLOTHES WASHER MARKET SHARE				
Year	Quarter	RI	National	Difference
2003	2	27.14%	20.81%	6.33%
2003	1	20.76%	19.63%	1.13%
2002	4	20.76%	19.36%	1.40%
2002	3	18.00%	18.32%	-0.32%
2002	2	16.85%	16.74%	0.11%
2002	1	12.85%	12.18%	0.67%
2001	4	16.84%	11.64%	5.20%
2001	3	12.56%	12.51%	0.05%
2001	2	11.49%	11.96%	-0.47%
2001	1	9.42%	10.37%	-0.95%

This table shows that the market share for qualifying clothes washers in RI in the second quarter of 2003 significantly exceeded the national market share for the first time since late 2001. For the second quarter of 2003, RI achieved a 27.14% ENERGY STAR market share compared to the national market share of 20.51%. This almost 7% differential is a key indicator of significant progress. We believe the increased sales in Rhode Island were due to Narragansett Electric's participation in the national "Double Your Savings with ENERGY STAR" promotion. Eight manufacturers provided a matching \$50 rebate to our rebate, resulting in a \$100 rebate for customers during the time period of April 15th through July 15th, 2003. This promotion was very successful in New England, but manufacturers report that they did not see significant participation in other parts of the country.

The requirements to meet ENERGY STAR standards will tighten up as of January 2004, and 20 popular models will no longer qualify as ENERGY STAR appliances. We expect a period of market adjustment in early 2004. Based on that, we suggest keying the metric to the national average as opposed to setting a goal for a specific percentage market share in the state. This would build on the progress that we have seen with RI exceeding the national average. This is a risky metric for us, since we're basing it on only one quarter of information, and we do not know whether manufacturers will offer the matching rebate again, but we think it is a good indicator of RI specific accomplishment.

The Company will need to report on metric performance in the 2004 Year End Report by May 1, 2005. Since we expect to have all data for 2004 by that time, we also think it makes sense to change the metric to include data from all of 2004, not just the first two quarters of 2004.

Residential Metric 2: ENERGY STAR Homes

The metric supports market transformation in the construction of new homes.

The Company will conduct plans analyses and home ratings and sign ENERGY STAR builders agreements with 15% of the new homes built in Rhode Island in 2004.

Discussion: The chart below provides statistics for ENERGY STAR homes for RI in 2001 through the third quarter of 2003.

ENERGY STAR HOMES			
Year	Permits	Signed	Percent
2001	2346	156	6.6%
2002	2804	233	8.3%
2003	2249	279	12.4%

Signing up builders and home buyers to the ENERGY STAR homes program requires builders to agree to a significant change in their building practices. We expect market transformation to continue to be slow and steady. In 2003, we hoped to achieve 10% and are currently at 12.4% through nine months. Final data for 2003 will not be available until the US Census Department releases information about permits pulled in all states in early 2004.

For 2004, we recommend a goal of 15%. We suggest that 15% will be a stretch, but achievable, given the penetration seen in 2002 and thus far in 2003. This is our best estimate as of September 30th, based on our estimate of how many permits will be pulled in Rhode Island in 2004 and our count of homes that are signed up for the program.

C& I Metric 1: Building Operator Certification (BOC) Training

Improving building performance represents a major opportunity to increase energy efficiency and effect peak demand reductions in the C&I sector. The BOC is a competency based training and certification program for building operators designed to improve the energy efficiency of commercial and industrial buildings. The metric tracks BOC Level 1 for building operators to develop skills to evaluate building energy use, foster better work environments, increase customer education, and support market transformation.

The Company will enroll in 2004 an additional 25 Rhode Island facility building engineers, technicians, contractors, or operators in the NEEP- Level 1- O&M training and certification course.

Discussion: Prior to 2003, 50 facility professionals working in Rhode Island had completed the Level 1 class. By the end of 2003, 25 additional facility professionals from Rhode Island will have been trained at Level 1, with 23 attending a Rhode Island based class and two attending in Massachusetts.

Facility professionals who participate in the Level 1 training make a commitment to participate in training given in 8 full day sessions over a 7 month period, a significant commitment for a business to make during this current economic climate where staffing levels have been reduced. The Company expects that it will be challenging to increase the numbers of professional building operators who attend these classes beyond the level of participation achieved in 2003.

C&I Metric 2: High Performance Schools

Schools present unique opportunities to not only adopt energy efficiency but to enhance student learning through better classroom design. This metric provides technical and financial support from the very beginning of school construction projects, emphasizes thermal, acoustic, and visual comfort, especially in lighting design, and helps cities and towns construct new schools that are high quality, environmentally sensitive, and cost less to operate.

The Company will contract with three new school projects through Design 2000*plus* to provide full incremental cost for high performance design and construction practices with a special focus on high quality energy efficient lighting.

Discussion: We have recently obtained the annual "Approval of Necessity of School Construction" funding approval letters from the Department of Education for the years 1998 through 2003. The annual letters give the names of the towns and generally what is being funded. On average, funding has been approved for approximately 15 projects per year. Some of this funding may be for projects that may not be suitable for the Schools Initiative, in other words, projects that do not involve construction of an entirely new school building.

The Company provides incentives for energy efficiency school construction through the Design 2000*plus* program (as well as retrofits under Energy Initiative). A total of 35 school construction projects have been funded through the Design 2000*plus* program since the beginning of the Schools Initiative: six projects were funded in 2001, 13 in 2002 and 16 thus far in 2003. These may have been full or partial facility construction, renovations, or equipment replacement at the end of its useful life. Of the 35 projects, 9 have participated in the Schools Initiative: one contract was completed in 2001, 6 in 2002 and 1 in 2003 with one additional one anticipated by the end of 2003.

The Company's proposal of three completed contracts will be a challenge when considering the small number of new schools built each year, the long project development schedules, and the current economic climate, particularly for municipalities. For 2004, the Company will work with the Rhode Island Department of Elementary and Secondary Education to help identify additional participants.

Under the expanded Schools Initiative program, the Company would use the same level of effort to offer the program to private schools as to public schools. However, because the Collaborative is uncertain about the size of the potential private school new construction population, it wants to clarify that the performance metric for target enrollment of three schools under the Schools Initiative, established under Revised Attachment 7 to the Settlement, should be clarified to indicate that it applies only to public schools in 2004. In future years, the Collaborative may recommend a performance metric that includes both public and private schools as better information about the private school population becomes available.

C&I Metric 3: Comprehensiveness in Small Business Installations

While the potential for significant energy savings in small businesses rests on improving lighting energy use, this metric encourages the Company to add other electrical efficiency opportunities including-- but not limited to-- HVAC tune-ups and other non-prescriptive measures to the Small Business Services program. In combination, these improvements to program design support more comprehensiveness in customers' facilities and expand the depth and appeal of the program.

The Company will achieve 5% comprehensiveness in Small Business Services in 2004. The percentage will be calculated as the number of completed non prescriptive lighting or other custom energy efficiency measures (excluding custom walk-in cooler measures) divided by the total number of participant locations (excluding walk-in cooler only participants) in 2004.

Discussion: In 2003, the Company substantially completed 92 comprehensive small business installations. These included six custom small business installations and 86 HVAC tune-ups. An additional 15 custom small business installations were initiated but not completed. Evaluation results indicate that the HVAC tune-up was not cost-effective, and the Company has decided to not offer the service in 2004.

The approximately 21 custom measures SBS initiated or completed in 2003 represent about 3% (21 measures/662 participants in 2004) comprehensiveness. Since many of the projects initiated in 2003 were expected to be completed early in 2004, the Collaborative adopted a stretch target of 5% comprehensiveness for 2004.

The metric specifies completed projects to put the tracking of comprehensiveness on equal footing with other results that are tracked throughout the years, and to eliminate the potential for counting a comprehensive project in two years.

Walk-in cooler have been excluded from the metric because they are delivered by a different vendor from the rest of the services and because comprehensive measures are just beginning to be developed and offered for the small business refrigeration end use.

NARRAGANSETT ELECTRIC COMPANY
Derivation of 2004 Spending Budget for Shareholder Incentive Calculation - True-Up Filing

	(1) Proposed Budget (\$000)	(2) Comitments and Copays (\$000)	(3) Excluded Programs (\$000)	(4) Allocated Other Expenses (\$000)	(5) Eligible Sector Spending Budget (\$000)
RESIDENTIAL PROGRAMS					
IN-HOME SERVICES					
EnergyWise	\$1,993.8				
Appliance Management Program (Low Income)	\$950.3				
Home Energy Management	\$152.5		\$152.5		
ENERGY EFFICIENT PRODUCTS					
ENERGY STAR Products	\$442.1				
ENERGY STAR Heating System	\$200.2				
ENERGY STAR HVAC	\$168.6				
ENERGY STAR Lighting	\$1,155.9				
INFORMATION & EDUCATION					
Energy Efficiency Educational Programs	\$106.7				
NEW CONSTRUCTION					
ENERGY STAR New Construction	\$690.1				
Subtotal Residential	\$5,860.2	\$0.0	\$152.5	\$106.2	\$5,813.9
C&I PROGRAMS					
LARGE C&I PROGRAMS					
Design 2000plus	\$5,295.8				
Energy Initiative	\$7,444.9				
Subtotal Large C&I	\$12,740.7	\$5,371.5	\$0.0	\$268.5	\$7,637.7
SMALL C&I PROGRAMS					
Small Business	\$2,853.2				
Subtotal Small C&I	\$2,853.2	\$540.6	\$0.0	\$26.9	\$2,339.5
Subtotal C&I	\$15,593.9	\$5,912.1	\$0.0	\$295.4	\$9,977.2
Total Residential and C&I Programs	\$21,454.1	\$5,912.1	\$152.5	\$401.6	\$15,791.1
OTHER DSM EXPENSE ITEMS					
Company Incentive	\$695.6		\$695.6		
Distribution Load Response Program	\$25.6			(\$25.6)	
Program Design, Evaluation & Planning	\$376.0			(\$376.0)	
Subtotal Other Items	\$1,097.1	\$0.0	\$695.6	(\$401.6)	\$0.0
TOTAL DSM BUDGET	\$22,551.2	\$5,912.1	\$848.0	\$0.0	\$15,791.1

Notes:

- (1) Proposed 2004 true-up budget.
- (2) Includes Small Business Services Copays, T/A Copays, and Large C&I Commitments
- (3) Includes the Home Management Program (HEM) and the target shareholder incentive.
- (4) The evaluation budget has been allocated to each sector. The Distribution Load Response Program has been allocated to the Large C&I sector.
- (5) Equal to column (1) - column (2) - column (3) + column (4).

THE NARRAGANSETT ELECTRIC COMPANY
Target 2004 Shareholder Incentive (True-Up Filing)

Incentive Rate: 4.40%

Sector	(1) Spending Budget	(2) Target Incentive	(3) Target Incentive for Performance Metrics	(4) Target Incentive - Annual kWh Savings	(5) Annual kWh Savings Goal	(6) Threshold kWh Savings	(7) Above Threshold kWh	(8) Incentive Per Above Threshold kWh
Residential	\$5,813,908	\$258,482	\$30,000	\$228,482	12,488,450	5,619,802	6,868,647	\$0.033
Small Commercial & Industrial	\$2,339,475	\$106,939	\$15,000	\$91,939	4,597,659	2,068,947	2,528,712	\$0.036
Large Commercial & Industrial	\$7,637,717	\$330,156	\$30,000	\$300,156	27,217,782	12,248,002	14,969,780	\$0.020
Total	\$15,791,100	\$695,577	\$75,000	\$620,577	44,303,891	19,936,751	24,367,140	

Notes:

- (1) Sector budget net of projected commitments, copays, and the HEM budget.
- (2) 4.40% of the spending budget.
- (3) \$15,000 per proposed performance metric.
- (4) Column (2) - Column (3) allocated to each sector based on the sector spending budget.
- (5) Goal for annual kWh savings by sector.
- (6) 45% of Column (5).
- (7) Column (5) - Column (6),
- (8) Column (4)/Column (7).

Calculation of 2004 Program Year Cost-Effectiveness and Goals

2004 TRUE UP - RHODE ISLAND BENEFIT COST TEST

Summary of Benefit, Expenses, Evaluation Costs (\$000)

The Narragansett Electric Company

	Rhode Island Benefit/ Cost (2)	Total Benefit	Program Implementation Expenses	Evaluation Cost	Shareholder Incentive (3)
Large Commercial & Industrial					
Design 2000 <i>plus</i>	2.65	\$9,126.8	\$3,333.8	\$106.6	NA
Energy Initiative	3.70	15,395.3	4,105.4	60.2	NA
SUBTOTAL	3.09	\$24,522.1	\$7,439.2	\$166.8	\$330.2
Small Commercial & Industrial					
Small Business(1)	1.66	\$3,806.7	\$2,265.9	\$26.9	NA
SUBTOTAL	1.59	\$3,806.7	\$2,265.9	\$26.9	\$106.9
Residential Programs					
IN-HOME SERVICES	1.06	\$3,294.2	\$3,096.6	\$8.3	NA
Appliance Management Program	1.07	1,023.5	950.3	8.3	NA
EnergyWise Program	1.00	1,989.7	1,993.8	0.0	NA
Home Energy Management	1.84	281.0	152.5	0.0	NA
PRODUCTS & SERVICES	3.05	6,148.2	1,966.8	47.1	NA
ENERGY STAR Appliances	3.51	1,584.0	442.1	9.7	NA
Residential Lighting	3.37	3,929.7	1,155.9	9.7	NA
ENERGY STAR Heating System	2.60	519.7	200.2	0.0	NA
ENERGY STAR Air Conditioning	0.59	114.9	168.6	27.7	NA
NEW CONSTRUCTION (ENERGY STAR Homes)	1.15	791.3	690.1	0.0	NA
SUBTOTAL	1.69	\$10,233.8	\$5,753.5	\$55.4	\$258.5
Other					
Energy Efficiency Educational Programs	NA	NA	\$106.8	NA	NA
Load Response	NA	NA	25.6	NA	NA
Other Program Design, Evaluation and Planning	NA	NA	NA	126.9	NA
SUBTOTAL	NA	NA	\$132.4	\$126.9	NA
TOTAL	2.31	\$38,562.5	\$15,591.0	\$376.0	\$695.6

Notes:

- 1) Small Business program expenses are net of the projected customer co-pay for 2004 installations (\$587,236).
- 2) RI B/C Test = (Energy + Capacity + Participant Resource Benefits) / (Program Implementation + Evaluation Costs + Shareholder Incentive)
- 3) See Updated Attachment 8.

Calculation of 2004 Program Year Cost-Effectiveness and Goals

2004 TRUE UP - RHODE ISLAND BENEFIT COST TEST

Summary of Expenses, Benefit, kW, and kWh by Program

The Narragansett Electric Company

	Program Implementation Expenses (000's)	Benefits (000's)										Load Reduction in kW				MWh Saved	
		Total	Capacity				Energy				Participant Resource	Maximum Annual	Summer	Winter	Lifetime	Maximum Annual	Lifetime
			Generation		Trans	MDC	Winter		Summer								
			Summer	Winter			Peak	Off Peak	Peak	Off Peak							
Large Commercial & Industrial																	
Design 2000plus	\$3,334	\$9,127	\$1,528	\$4	\$1,046	\$1,514	\$1,877	\$1,445	\$1,003	\$709	\$0	2,424	2,424	1,409	36,381	10,451	161,077
Energy Initiative	4,105	15,395	2,574	8	1,746	2,554	3,593	2,011	1,922	987	0	3,583	3,583	2,391	58,931	16,766	264,348
SUBTOTAL	\$7,439	\$24,522	\$4,102	\$12	\$2,792	\$4,068	\$5,470	\$3,456	\$2,925	\$1,696	\$0	6,007	6,007	3,800	95,312	27,218	425,425
Small Commercial & Industrial																	
Small Business(1)	\$2,266	\$3,807	\$657	\$2	\$490	\$722	\$872	\$402	\$464	\$197	\$0	1,279	1,279	900	15,869	4,598	57,049
SUBTOTAL	\$2,266	\$3,807	\$657	\$2	\$490	\$722	\$872	\$402	\$464	\$197	\$0	1,279	1,279	900	15,869	4,598	57,049
Residential Programs																	
IN-HOME SERVICES	\$3,097	\$3,294	\$216	\$2	\$277	\$693	\$444	\$542	\$253	\$258	\$608	1,655	1,655	3,086	5,241	3,846	44,744
Appliance Management Program	950	1,024	55	0	54	129	115	140	66	67	398	94	94	152	1,239	898	11,849
EnergyWise Program	1,994	1,990	115	1	155	399	329	402	187	191	210	247	247	628	2,687	2,948	32,896
Home Energy Management	152	281	47	0	68	166	0	0	0	0	0	1,314	1,314	2,306	1,314	0	0
PRODUCTS & SERVICES	1,967	6,148	253	4	412	1,108	818	1,003	474	485	1,591	526	526	2,260	5,921	8,413	81,405
ENERGY STAR Appliances	442	1,584	90	0	60	122	66	80	41	42	1,082	159	159	72	2,056	507	7,048
Residential Lighting	1,156	3,930	120	4	330	947	749	919	425	436	0	314	314	2,182	2,927	7,864	73,636
ENERGY STAR Heating System	200	520	0	0	1	4	2	2	1	1	509	0	0	6	1	12	183
ENERGY STAR Air Conditioning	169	115	42	0	21	35	1	2	7	7	0	52	52	0	937	30	538
NEW CONSTRUCTION (ENERGY STAR Homes)	690	791	63	0	40	97	31	38	18	18	486	63	63	59	1,450	230	3,381
SUBTOTAL	\$5,753	\$10,234	\$531	\$6	\$729	\$1,898	\$1,293	\$1,584	\$745	\$762	\$2,685	2,243	2,243	5,404	12,612	12,488	129,531
TOTAL	\$15,459	\$38,563	\$5,290	\$21	\$4,011	\$6,689	\$7,635	\$5,442	\$4,134	\$2,654	\$2,685	9,529	9,529	10,104	123,792	44,304	612,005

Notes:

- 1) Small Business program expenses are net of the projected customer co-pay for 2004 installations (\$587,236).

THE NARRAGANSETT ELECTRIC COMPANY
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Updated Attachment 10
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Calculation of 2004 Program Year
Cost-Effectiveness and Goals

Program	Annual Energy Savings (MWh)
Large Commercial & Industrial	
Design 2000 <i>plus</i>	10,451
Energy Initiative	16,766
SUBTOTAL	27,218
Small Commercial & Industrial	
Small Business(1)	4,598
SUBTOTAL	4,598
Residential Programs	
<i>IN-HOME SERVICES</i>	
Appliance Management Program	898
Energy <i>Wise</i> Program	2,948
Home Energy Management	0
<i>PRODUCTS & SERVICES</i>	
ENERGY STAR Appliances	507
Residential Lighting	7,864
ENERGY STAR Heating System	12
ENERGY STAR Air Conditioning	30
<i>NEW CONSTRUCTION (ENERGY STAR Homes)</i>	230
SUBTOTAL	12,488
TOTAL	44,304